# LEGISLATIVE SERVICES AGENCY
## OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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## FISCAL IMPACT STATEMENT

**LS 7358**
**BILL NUMBER:** SB 477

**NOTE PREPARED:** Jan 19, 2015
**BILL AMENDED:**

**SUBJECT:** Business Development Closing Fund.

**FIRST AUTHOR:** Sen. Head
**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** X GENERAL
X DEDICATED
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** This bill establishes the Business Development Closing Fund (fund) to provide incentives in the form of forgivable loans to be used to attract new business and economic development to Indiana and encourage expansion of existing business within Indiana. It provides that if the amount of excess reserves is more than $200 million, then up to $100 million of the excess reserves that exceed $200 million shall be transferred to the fund. The bill provides that the Indiana Economic Development Corporation (IEDC) administers the fund.

The bill requires the IEDC to perform the following duties:
(1) Establish the criteria for awarding forgivable loans from the fund.
(2) Establish the terms and conditions of forgivable loans from the fund.
(3) Award forgivable loans.
(4) Release an obligation to repay a forgivable loan.

The bill requires that a forgivable loan awarded by the IEDC must include the following conditions:
(1) The minimum economic development outcomes that are required to be achieved by a forgivable loan recipient (including a baseline number of jobs to be created within Indiana).
(2) An obligation by the forgivable loan recipient to repay the forgivable loan.
(3) The terms and conditions upon which the forgivable loan recipient must be released from its obligation to repay the forgivable loan.

The bill also provides that income attributable to the release or discharge of an obligation to repay a forgivable loan is exempt from the adjusted gross income (AGI) tax. The bill appropriates money in the fund.

**Effective Date:** July 1, 2015.

**Explanation of State Expenditures:** _Summary-_ Assuming state reserves grow at recently experienced rates, the Business Development Closing Fund is not likely to receive any transfers of excess reserves in the next two biennia. Excess reserve transfers in the future will depend on the amount of annual state revenues, appropriations, and expenditures in the future.

The bill also requires the IEDC to perform certain duties, for which the IEDC's current resources should be sufficient.

_Additional Information-_ The bill establishes the Business Development Closing Fund and requires the IEDC to administer the fund. The purpose of the fund is to provide forgivable loans to be used to attract new business and economic development to Indiana and encourage expansion of existing business within Indiana. The fund is nonreverting and consists of appropriations by the General Assembly, donations, federal grants and other appropriations, and interest and other earnings. The fund also consists of transfers of excess state reserves as calculated under current statute.

The bill does not make an appropriation to the fund.

The bill changes the current excess reserve transfer formula to include transfers to the Business Development Closing Fund. The excess reserve transfers, including transfers to the fund, are to be in the following amounts:

(1) If the amount of excess reserves is at least $50 M but less than or equal to $200 M, the Governor must transfer 50% of the excess reserves to the Pension Stabilization Fund and use the remaining 50% for the purposes of providing an automatic taxpayer refund.

(2) If the amount of excess reserves exceeds $200 M but is less than or equal to $300 M, the Governor must:

    (a) Transfer the amount of excess reserves equal to $200 M as provided in (1).

    (b) Transfer the amount of excess reserves exceeding $200 M to the Business Development Closing Fund.

(3) If the amount of excess reserves exceeds $300 M, the Governor must:

    (a) Transfer the amount of excess reserves equal to $100 M to the Business Development Closing Fund.

    (b) Upon completing the transfer in (3a), transfer the balance of excess reserves as provided in (1).

The trend in state reserve balances from FY 2000 to FY 2014 was used to project future state reserves. Current law defines excess reserves as the total balances, excluding the balance in the state Tuition Reserve Fund, at the end of each odd-numbered state fiscal year that exceed 12.5% of the current-year appropriations. It is estimated that in the next five years, 12.5% of appropriations could range from $1.9 B to $2.2 B. In order for money to be transferred to the fund, excess reserves must exceed $200 M above that amount stipulated by law. This means that total reserves minus the Tuition Reserve Fund must exceed $2.1 B to $2.4 B so that any amount above $1.9 B to $2.2 B may be transferred to the fund.

**Explanation of State Revenues:** This bill establishes that the IEDC must require an obligation by the forgivable loan recipient to repay the forgivable loan. Provided the criteria of that obligation (established by the IEDC) are fulfilled, the forgivable loan recipient is to be released from its obligation to repay the forgivable loan, thereby making income attributable to the release or discharge of that obligation exempt from the AGI tax.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** See *Explanation of State Revenues*.

**State Agencies Affected:** Office of Management and Budget; Indiana Economic Development Corporation.

**Local Agencies Affected:** Counties with local option income taxes.

**Information Sources:**

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